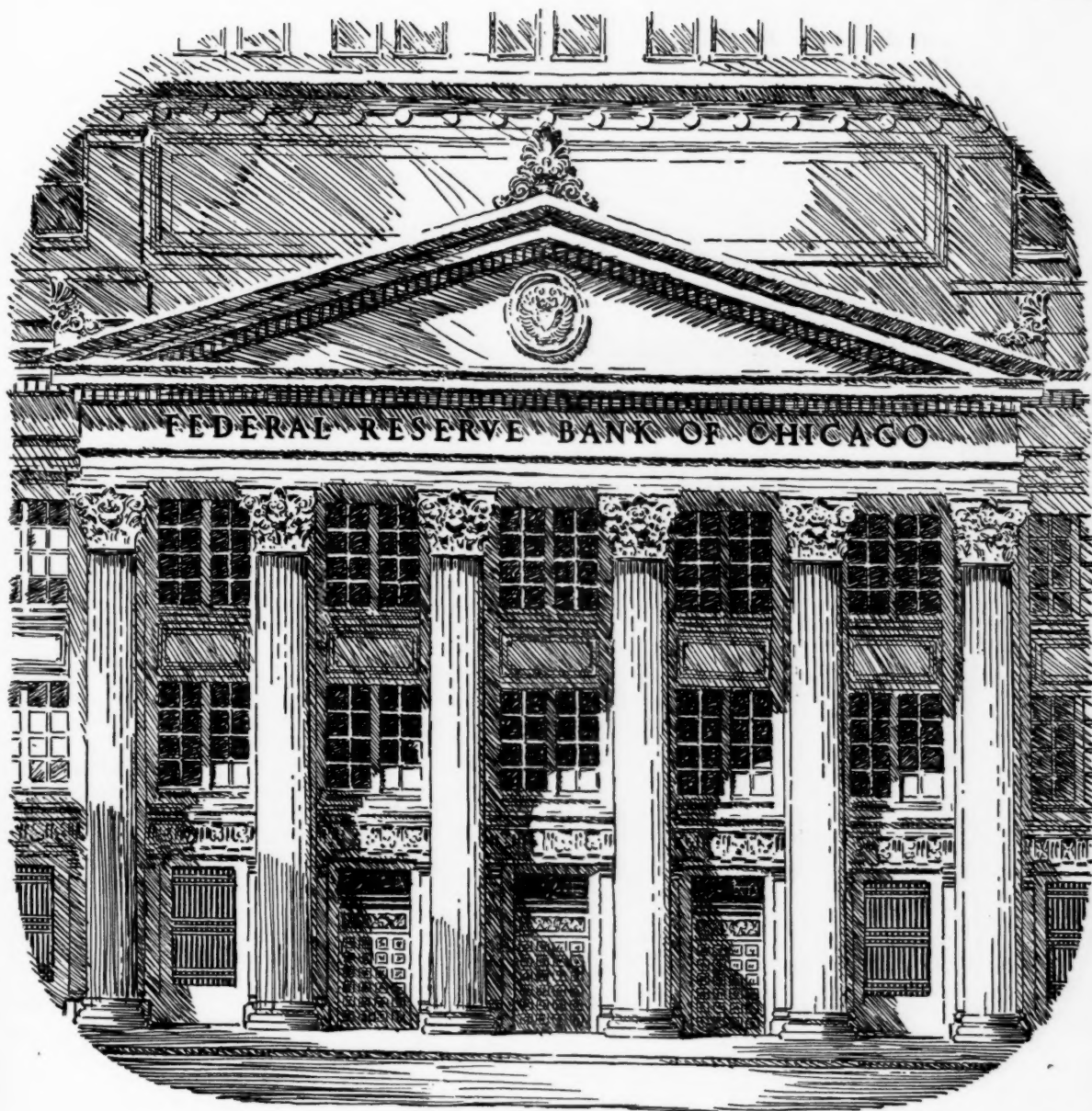


BUSINESS CONDITIONS



Prepared by the
Research and Statistics Department
of the
Federal Reserve Bank of Chicago

Monthly Review of Business Conditions in the Seventh Federal Reserve District

DISTRICT SUMMARY

THE business trend in the Seventh district has continued to rise over the low level prevailing in the first half of the year. Although the improvement has become increasingly more marked, activity has not as yet reached a level equal to that operative a year ago at which time recessions predominated. An important indication of current industrial expansion is found in employment and payrolls which have shown definite gains. Agricultural income in the district for the first eight months of 1938 was down 6 per cent from the corresponding 1937 period.

INDUSTRY

AMONG the major industries of the district to show further expansion in activity has been iron and steel, the rate of steel ingot output in the third week of October averaging 46 per cent of capacity as against a rate of only 36 per cent two months earlier. Specifications from the automotive industry were responsible to a great extent for the increased operations. Actual production of automobiles reached a new low level for the year in September, but advanced rapidly in October. New business of steel and malleable casting foundries improved in September and output of malleable castings increased, although that of steel castings declined. Stove and furnace factories had heavier orders and shipments in September, and a greater than seasonal gain was recorded over August in shipments by furniture manufacturers. Activity at paper mills eased off slightly but was greater than a year ago.

September building contracts awarded in the district were in the largest volume since June 1937, the trend having been almost steadily upward since February this year. Except for the corresponding 1937 period, residential building so far in 1938 has been the heaviest since 1930. Actual construction was retarded in September by rainy weather so that building materials moved less actively than in August.

Production of bituminous coal in Illinois and Indiana, which has been running throughout 1938 behind that of a year ago and the 1928-37 average, rose sharply in September to a level above the average for the month and within 11 per cent of the volume last September. Daily average runs of crude oil to stills in this area increased in September over August and a year ago, and the operating rate at refineries advanced 10 points in the period to 92 per cent of capacity at the close of the month.

There was a sharp rise during September in Seventh district industrial employment and payrolls. Although almost all reporting groups shared in the aggregate gains, reemployment in the automotive industry was mainly responsible for the size of the increases.

AGRICULTURAL PRODUCTS

TONNAGES sold by packing-house establishments continued during September to exceed the volume of production, as has been the case in each month this year since February. Both the volumes produced and sold were above those of a month previous and September 1937 but, because prices remained below those of last year, the dollar value of sales totaled less than at that time. Inventories, though larger than a year ago, are less than usual at this season. The manufacture of dairy products declined in September, but sales volumes were well maintained. However, consumption has failed to keep pace with the heavy production in 1938, so that stocks of dairy products have reached record high levels. Grain surpluses also are heavy this year.

TRADE

WHOLESALE trade groups in the district reported continued expansion in sales in September and retail trade phases experienced sharp increases in business, in accordance with seasonal trend. The gain over August in department store trade was greater than usual for the month and the decline from a year ago only moderate. In the first half of October, however, department store sales showed a less favorable trend as compared with the period last year.

CREDIT

IN THE five weeks ended October 19, reserve balances of Seventh district member banks declined slightly. Principally because of increased holdings of United States Government direct obligations, total loans and investments of weekly reporting member banks rose 62 millions in the period. Velocity of demand deposits in these banks has increased in recent weeks.

Commercial failures in this district during the first three quarters of 1938 totaled almost 50 per cent greater in number and more than 60 per cent larger in liabilities involved than in the same 1937 period. Because of the greater gain in liabilities than in number, the average liability also showed some increase in the comparison.

The Agricultural Situation

INVENTORIES OF SELECTED FARM COMMODITIES IN THE UNITED STATES

	October 1, 1938	Per Cent Change from Year Earlier	1927-36 October 1 Av.
Creamery butter:			
Excluding Govt. holdings.....	112,483,000 lbs.	-5.2	-13.0
Including Govt. holdings.....	210,351,000 lbs.	+77.2	+62.7
Cheese:			
American.....	121,342,000 lbs.	+19.9	+37.8
All varieties.....	141,120,000 lbs.	+20.0	+35.0
Evaporated milk:			
Manufacturers' stocks.....	410,142,000 lbs.*	+57.6*	+95.9*
Wheat:			
On farms and in visible position.....	532,150,000 bu.	+16.4	+9.5
Corn:			
New crop plus farm carry-over.....	2,811,450,000 bu.	+3.9	+13.1
Oats:			
On farms and in visible position.....	866,417,000 bu.	-7.0	+1.3
Packing-house commodities:			
Commercial holdings.....	460,122,000 lbs.	+4.7	-36.1

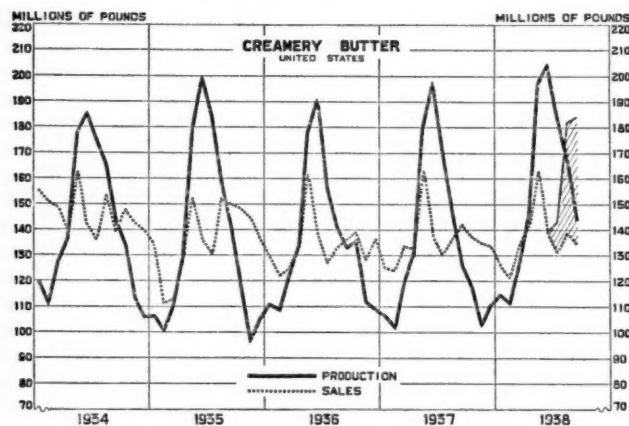
*September 1 and the 1933-37 average for that date.

THE problem of possible repercussions from agricultural surpluses, particularly with respect to grains and dairy products, is a matter of much concern in the Seventh Federal Reserve district, and Government agencies have intervened in the situation to a considerable extent. On the other hand, the outlook in the livestock and meat-packing industries appears comparatively favorable at the present time.

DAIRY PRODUCTS

STOCKS of creamery butter, cheese, and evaporated milk have attained unprecedented peaks. Growth in these surpluses has been due partly to lack of response in fluid milk consumption to the sustained flow occasioned by an unusual continuance of good pasturage throughout the summer and early autumn, and partly due to the marked lowering in urban incomes.

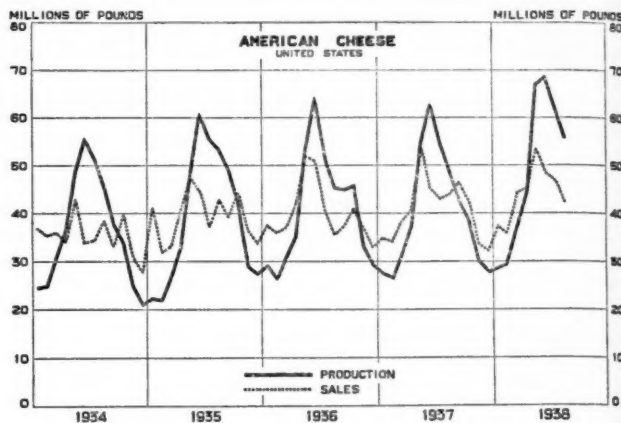
Butter production during September continued at close to record levels, though declining seasonally from August. The butter make by Seventh district firms showed a decline of 14 per cent from August but exceeded the 1937 level by one fifth. Creamery butter production in the United States likewise declined seasonally in September, but continued about 11 per cent greater than the 1928-37 average for the month. Butter consumption has held up fairly well, but not enough so to move the increased production in 1938. September sales by Seventh district firms declined only 2 per cent from August and totaled about two fifths higher than the ten-year September average. Butter prices at Chicago have held steady since mid-July. The Dairy Products Marketing Association has practically completed its buying quota of 115 million pounds; in recent weeks, the Federal Surplus Commodities Corporation has made purchases from the Association as well as in the open market, and has been authorized to purchase up to 90 million pounds during the fiscal year ended next June 30. A sizable portion of these Government purchases probably will be distributed through relief channels during the winter.



By months, January 1934 to September 1938. Hatched area indicates purchases by Government agencies in open market.

Production of cheese has also been heavy this year, but in September there was considerable diversion of milk to creamery butter manufacture, and the production of American cheese in Wisconsin declined 25 per cent from August and totaled slightly under the ten-year average level. On the other hand, recent distribution from Wisconsin primary markets has been unusually well maintained, September sales being one fourth greater than in August and 31 per cent above the 1928-37 average. As a consequence of this some-

what more favorable statistical position, United States cold-storage holdings of American cheese declined 6½ million pounds in September, although a slight rise is seasonally expected, and cheese prices displayed a firming tendency throughout September and held steady in October. With more favorable prices, many factories shifted back to the manufacture of cheese in early October and prospects were for a rather high level of production.



By months, January 1934 to August 1938.

GRAINS

DESPITE larger exports in the 1938 season to date over the corresponding 1937 period and recent substantial disappearance in domestic supplies, stocks of wheat on farms and in visible positions on October 1 were heavier than a year ago at the same time by close to the increase in production over 1937. A substantial amount of wheat has been taken over by the Federal Surplus Commodities Corporation against loans previously made, at loan values, and an export subsidy has been inaugurated in recent months. Even with the present low prices of wheat, the United States Department of Agriculture estimates that the world carry-over of wheat on July 1, 1939, will be close to the 1933 record high of 1,195 million bushels.

In the latter half of September wheat prices were dominated by the disturbing political events in Europe, but with the passing of the crisis, prices declined about 4 cents. Quotations later recovered the lost ground, reflecting extension of the Government subsidy program, strength in the security markets, and lighter domestic country marketings. Prices for No. 2 hard winter wheat stood at \$.67 and \$.70 on October 22, slightly above December futures prices.

Government estimates show a total supply of four feed grains in the United States as 4 per cent larger on October 1 than a year earlier. Because of a much heavier than normal carry-over from last season, October 1 supplies of corn were about 13 per cent above the 1927-36 average, and all of this increase was within the five States including the Seventh Federal Reserve district. Farmers have marketed substantial amounts of old crop corn to make crib room for the new, and many are liquidating indebtedness for earlier corn loans by actual delivery of the grain to the Government. Current quotations are much below the Government loan basis. Cash corn prices held fairly steady throughout most of September, reflecting firmness in wheat and a good shipping demand. They declined sharply in the last few days of the month and the first half of October until, at \$.45½ to \$.46½ on October 15, quotations for No. 2 yellow corn for immediate delivery at Chicago stood about 8 cents lower than in mid-September

CROP PRODUCTION

Estimated by the United States Bureau of Agricultural Economics on the Basis of October 1 Condition

(In thousands of bushels unless otherwise specified)

	Seventh District			United States		
	Forecast 1938	Final 1937	Average Forecast 1927-36	Forecast 1938	Final 1937	Average 1927-36
Corn.....	988,330	1,140,744	812,711	2,459,316	2,644,995	2,306,157
Oats.....	421,474	544,644	445,866	1,041,577	1,146,258	1,042,461
Barley.....	45,316(a)	42,767(a)	48,881(a)	352,373	219,635	234,895
Soybeans.....	36,760(b)	32,833(b)	13,564(b)	43,684(c)	38,128(c)	16,410(c)
All Tame Hay.....	18,990	15,360	15,558	81,786	73,785	69,754
Total Wheat.....	71,607	79,707	58,323	940,229	873,993	752,891
Rye.....	9,993(a)	13,632(a)	7,221(a)	52,500	49,449	36,454
Buckwheat.....	612(a)	616(a)	919(a)	6,997	6,777	8,569
White Potatoes.....	56,309	51,039	53,249	373,275	393,289	369,693
Tobacco.....	34,448	26,635	33,665	1,484,690	1,553,405	1,325,243

Fruits, Vegetables, and Canning Crops: Changes from September 1 have been relatively small and have not been included.

¹In thousands of tons. ²In thousands of pounds. (a)Five States including the Seventh Federal Reserve district. (b)Illinois, Indiana, and Iowa. (c)Six leading commercial production States.

and almost 20 cents under a year ago. Factors in this later weakness were long liquidation and selling by cash interests to hedge country purchases. With a decline in old crop marketings and a revival in export demand, prices recovered somewhat in the following week.

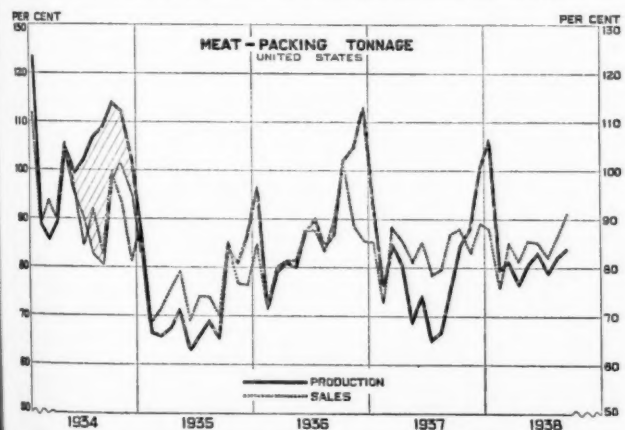
Stocks of oats in the United States are in comparatively good position and prices have held relatively more steady in comparison with other grains.

MOVEMENT OF GRAIN AT INTERIOR PRIMARY MARKETS IN THE UNITED STATES (In thousands of bushels)

	September 1938	August 1938	September 1937	September 1928-37 Av.
Wheat:				
Receipts.....	36,212	61,670	33,636	39,070
Shipments.....	22,176	25,044	18,285	23,846
Corn:				
Receipts.....	17,628	16,636	8,564	14,729
Shipments.....	9,919	17,694	4,341	8,195
Oats:				
Receipts.....	9,580	24,824	13,984	11,450
Shipments.....	6,982	10,711	6,341	6,530

LIVESTOCK AND MEAT PACKING

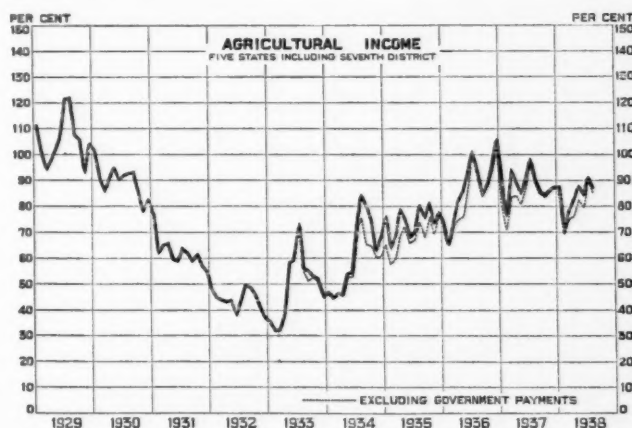
LIVESTOCK operations are currently in a favorable position both with respect to cost of feed and the status of packing-house commodity inventories. While both hogs and corn have shown weakness in October and cattle have tended to ease somewhat since mid-month, the wide margin in selling prices of all livestock over corn continues. This condition is an incentive to an improved demand for feeding cattle and to the finishing of all animals to heavier than normal weights, thereby tending to increase future supply. Hog marketings during the next several months are expected to exceed those of a year earlier, owing to a 13 per cent increase in the crop of spring pigs and the probability of a close to 10 per cent gain in autumn farrowings over 1937. The upward trend in industrial payrolls throughout the country and the fact that inventories of packing-house commodities can be expanded much more than normally between October 1 and the beginning of March before attaining an average level, appear favorable to such expansion. There is no carry-over from the preceding year of rough cattle to be fed, such as increased the supply in 1938. However, packing-house commodity production might be swelled by liquidation of dairy cattle because of the current situation in that industry.



Indexes of physical volume of production and sales, unadjusted for seasonal variation, 1923-1925 average = 100. By months, January 1934 to September 1938. Hatched area in 1934 represents tonnage produced for Government agencies.

Since February this year the tonnage sold at inspected slaughtering establishments in the United States has exceeded current production by a considerable margin, and September showed a continuance of this trend. The volume sold in that month rose 6 per cent over August, and was 5 per cent above

a year ago and within one per cent of the 1928-37 average for the month. Both production and sales volumes for the year to date have been well above last year's levels and although production expanded only 2 per cent further in September, it was 12 per cent above that in the month last year. September prices averaged close to those of August but remained much below a year ago; the total value of sales billed to domestic and foreign customers increased 8 per cent over August and one per cent over the ten-year average, but was 8 per cent under September 1937. Shipments of animal products for export thus far in 1938 have been above the corresponding period of 1937 and were larger in September than in August. British trade was good during most of September and an increased quantity of lard and fat backs was sold to Czechoslovakia; demand from both countries slackened during the period of war scare and unsettled exchange conditions. Cuban demand for lard was quite heavy during September and trade with Porto Rico and the South American republics equaled that of August; there was some improvement in demand from Belgium and the Scandinavian countries. Prices in England were below Chicago parity, but quotations elsewhere were close to the United States basis. Inventories of United States packing-house commodities in foreign countries—inclusive of stocks in transit—declined sharply on October 1 from the beginning of September. Imports of animal products into the United States for 1938 to date have fallen considerably below the corresponding period of 1937.



Indexes of agricultural income in dollars, unadjusted for seasonal variation, 1923-1925 average = 100. By months, January 1929 to August 1938.

Industrial Employment Conditions

ALTHOUGH employment and payrolls in practically all reporting industrial groups of the Seventh district totaled heavier in the middle of September than a month earlier, the substantial proportions of the gains in aggregate volumes were determined mainly by the return to work of men within a single group of industries. This group, classified as vehicles and represented by over 400 establishments and a weekly payroll of 7½ million dollars, increased its employment and payrolls by more than one third over those of the preceding month. The gains contributed by this industry amounted to approximately three quarters of the net rise in all groups combined. Rubber products likewise recorded an expansion considerably in excess of the average for all industries. Aside from these two groups, increases within the manufacturing classification were limited to a range of from 0 to 3 per cent in employment and from 1 to 4½ per

cent in payrolls. Paper and printing furnished an exception to the generally upward movement in the manufacturing industries with a decline of 2 per cent in wage payments. The non-manufacturing groups as a whole increased employment and payrolls to a moderate extent, the merchandising division showing the most substantial advance. Due to the current rise in aggregate employment and payroll volumes, there has been a marked reduction in the margin of decline from the corresponding volumes of a year ago, employment currently being approximately 25 per cent and payrolls 30 per cent below those of September last year.

Manufacturing

IRON AND STEEL PRODUCTS

WITH specifications from the automotive industry becoming steadily greater, operations at Chicago district steel mills have continued to rise. In the third week of October the rate of steel ingot output averaged 46 per cent of capacity, as against but 36 per cent in the comparable week two months earlier and compared with 45 per cent a year ago at the same time. Demand from the automotive industry as well as other sources is for immediate needs only, however, and there appears to be no tendency on the part of steel consumers to replenish their stocks. The reopening of several farm equipment plants has failed so far to bring new orders from that source, although a sizable portion of an order for rails and track accessories by the New York Central has been placed in this district. Lower prices for rails and accessories were quoted the latter part of September. Because of competition, concessions of as much as \$6 per ton were made on sheets in the first half of October, which concessions, however, were later withdrawn. The price of pig iron was raised \$1 per ton toward the end of September. Scrap iron and steel prices weakened in the third week of the month and again in October.

The noticeable increase for September over August in the aggregate of orders booked for steel castings was due to a sharp rise at only a few foundries of the district. A smaller

gain in new orders for malleable castings represented the fourth successive monthly expansion. Following a decided increase in August, output from steel casting foundries declined in the current period, while that from malleable casting foundries recorded further expansion. Production of steel castings ran well behind the volume of September shipments and new business; the tonnage of malleable castings produced somewhat exceeded shipments and orders.

STEEL AND MALLEABLE CASTINGS SEVENTH DISTRICT

	September 1938 Per Cent of Increase or Decrease from	
	August 1938	September 1937
Steel Castings:		
New orders booked (tons).....	+43.7	-63.7
New orders booked (dollars).....	+23.2	-60.6
Shipments (tons).....	-7.4	-71.9
Shipments (dollars).....	-8.1	-68.6
Production (tons).....	-22.2	-77.0
Malleable Castings:		
New orders booked (tons).....	+11.4	-24.4
New orders booked (dollars).....	+9.0	-24.0
Shipments (tons).....	+10.0	-50.7
Shipments (dollars).....	+7.3	-61.6
Production (tons).....	+13.7	-52.1

In accordance with seasonal trend, new business and shipments of reporting stove and furnace manufacturers in the Seventh district expanded considerably further in September. Production rose only slightly over August and was much below a year ago. New orders were only a little and shipments considerably less than last September.

AUTOMOBILE PRODUCTION AND DISTRIBUTION

PRODUCTION of automobiles rose rapidly in October, as output of 1939 models got well under way. Because manufacturers were delayed somewhat in their changeover to the new models, total September production fell to a new low for this year. Passenger vehicles and trucks produced during the month in the United States numbered 65,159 and 18,375, respectively, as compared with 58,624 and 31,860 in August and with 118,671 and 52,542 in September last year. In the first three quarters of 1938, the number of passenger cars manufactured totaled 1,167,141 and that of trucks 352,188, which aggregates are 62 and 51 per cent below those for the corresponding 1937 period.

Seventh district automobile dealers reporting to this bank appeared to be in excellent inventory position at the end of September with respect to both new and used cars, stocks of each being further reduced during the month to levels approximately three fourths and two fifths, respectively, below those of a year ago. At the close of September last year, dealers had relatively large stocks of 1937 models and of used cars on their hands. The trend of retail sales continued downward in the current period, as was to be expected, but receipt of new models by a few distributors effected a slight increase over August in the aggregate number of cars sold at wholesale by reporting firms.

Furniture

OTHER INDUSTRY

NEW business booked by reporting furniture manufacturers of the Seventh district fell off slightly during September, after having shown a counterseasonal gain in August. The decline of 2 per cent, though comparing with a small increase in the 1928-37 average for September, was less than took place in the month last year. Shipments, which totaled 23 per cent above the August volume, recorded a much greater than seasonal expansion. They moderately exceeded new orders, thus reducing unfilled orders on hand by about 10 per cent in the period. Current volumes booked

EMPLOYMENT AND EARNINGS—SEVENTH FEDERAL RESERVE DISTRICT

Industrial Group	Week of September 15, 1938			Change from August 15, 1938	
	Report- ing Firms	Wage Earn- ers	Earn- ings (000 Omitted)	Wage Earn- ers	Earn- ings
	No.	No.	\$	%	%
DURABLE GOODS:					
Metals and Products ¹	1,781	328,052	8,491	+ 2.0	+ 4.4
Vehicles.....	431	225,245	7,411	+36.8	+36.7
Stone, Clay, and Glass.....	282	20,009	487	+ 0.4	+ 1.2
Wood Products.....	486	40,933	854	+ 2.3	+ 1.9
Total.....	2,980	614,239	17,243	+12.8	+15.9
NON-DURABLE GOODS:					
Textiles and Products.....	401	63,834	1,208	+ 2.6	+ 2.7
Food and Products.....	1,636	119,371	2,908	+ 2.6	+ 2.3
Chemical Products.....	305	34,054	997	+ 2.9	- 0.0
Leather Products.....	168	25,351	538	+ 1.2	+ 1.1
Rubber Products.....	25	16,079	442	+10.7	+18.4
Paper and Printing.....	743	71,671	1,967	- 0.0	- 2.1
Total.....	2,688	330,360	8,060	+ 2.3	+ 1.6
Total Mfg., 10 Groups.....	5,668	944,599	25,303	+ 8.9	+11.0
Merchandising²:					
Public Utilities.....	5,494	134,100	2,920	+ 4.9	+ 2.8
Coal Mining.....	1,091	99,280	3,285	+ 0.0	- 0.2
Construction.....	39	6,854	148	- 1.7	+ 4.6
Construction.....	767	11,369	337	+ 1.1	- 0.2
Total Non-Mfg., 4 Groups.....	7,391	251,663	6,690	+ 2.6	+ 1.2
Total, 14 Groups.....	13,059	1,196,262	31,993	+ 7.5	+ 8.8

¹Other than Vehicles. ²Illinois, Indiana, and Wisconsin.

and shipped were around 15 per cent below those of a year ago when trends were not so favorable. A further advance of 10 points was made during September in the rate of production which averaged 73 per cent of capacity for the month, approximately 10 points less than for last September.

Paper and Pulp

REPORTS from Seventh district firms indicate a slight decline during September in activity among pulp and paper mills. Comparisons with the low 1937 level continued for the most part favorable in the paper industry.

PAPER AND PULP INDUSTRY SEVENTH DISTRICT

	September 1938 Per Cent of Increase or Decrease from August September	
	1938	1937
Paper:		
New orders booked (tons).....	-0.3	+11.7
New orders booked (dollars).....	-5.0	+1.0
Total shipments (tons).....	-3.9	+4.4
Total shipments (dollars).....	-0.9	+0.4
Total production (tons).....	-7.1	+0.4
Stocks on hand at end of month (tons).....	-2.4	+11.5
Pulp:		
Pulp produced (tons).....	-2.0	-8.5
Stock on hand at end of month (tons).....	-7.3	-0.9

The Building Industry

A CONTINUED rise in construction activity in the Seventh district was indicated by September contracts awarded, their total valuation being the largest recorded since June a year ago. The increase over last September raised cumulative awards for the year to date to a volume only 12 per cent below that of the corresponding period in 1937, as against a difference of 42 per cent at the close of the first quarter and one of 21 per cent at the end of the second quarter. The trend in 1938, as may be noted in the accompanying chart, has been almost steadily upward since February, whereas last year there was a definite recession from a high point in June. For the past three years, 1936-38, total awards in the first nine months have ranged between \$350,000,000 and \$400,000,000, which is considerably higher than in the intervening years since 1931 but lower than in those prior to that year.

Residential building continued in September at a level practically equal to that reached in August, following a steady expansion since the beginning of the year. Cumulative awards for 1938 in this type of construction were, except for the corresponding period in 1937, the highest since 1930. Building in this field has been greatly stimulated by the assistance rendered by the Federal Housing Administration in the insurance of mortgages. Of the \$53,000,000 in total contracts awarded during September, approximately 28 per cent was for residential construction work, almost as large a percentage for non-residential building, and the remainder for public works and utilities. For the year to date these several types of construction held relatively the same positions as in September.

BUILDING CONTRACTS AWARDED* SEVENTH FEDERAL RESERVE DISTRICT

Period	Total Contracts	Residential Contracts
September 1938	\$53,410,000	\$14,957,000
Change from August 1938	+7.3%	-0.3%
Change from September 1937	+35.9%	+48.7%
First nine months of 1938	\$348,994,000	\$97,908,000
Change from same period of 1937	-12.1%	-10.3%

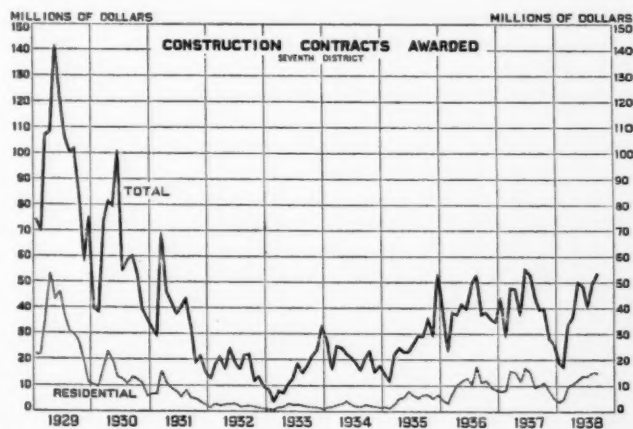
*Data furnished by F. W. Dodge Corporation.

It may be of interest to note that awards during the current period as well as for the first three quarters of the year are almost evenly divided as between privately- and publicly-

financed projects, the latter constituting 52 per cent of the September valuation and nearly 50 per cent of that for the entire period. In residential construction less than 4 per cent of the nine months' total comes under the classification of public ownership, while in non-residential building the percentage is close to 41 per cent and in public works and utilities as high as 93 per cent.

Permit figures for 94 smaller cities located within the district showed no change for September from August in the number of contemplated projects but a decline of 12 per cent in estimated cost. The five larger cities of the district differed from the smaller centers in that the number of permits issued declined and estimated cost increased sharply. The five larger cities also recorded a marked increase over a year ago in estimated cost of projects, while the smaller cities showed considerable declines in both number and value of permits.

Building materials as a whole experienced a less active demand in September than in August, actual construction having been considerably retarded by the rainy weather prevailing during the first half of the month. Wholesale lumber distribution increased while sales at retail declined, both trends being contrary to those generally operative at this season. Cement shipments, though practically as large as a month earlier, were 10 per cent below those of a year ago. Demand for brick, depending mainly on the volume of residential building, was well maintained during the month and only slightly smaller than in September last year. Prices of building materials early in October showed little change in the aggregate from a month earlier and remained approximately 7 per cent lower than at the same time in 1937.



By months, January 1929 to September 1938. Data furnished by F. W. Dodge Corporation.

Merchandising

WHOLESALE TRADE

DISTRIBUTION of commodities at wholesale continued to expand during September in this district, according to data for groups reporting to the United States Department of Commerce. Total sales for these groups gained 6 per cent over the preceding month; the increases in the major lines ranged from 4 per cent in groceries to as much as 15 per cent in the hardware trade, while tobacco and its products showed a loss of 3 per cent. The dollar volumes sold were generally under those of a year ago, aggregate sales for all reporting groups decreasing 13 per cent from last September. Sales declines for the first three quarters of

1938 from the same 1937 period amounted to only 2 per cent for tobacco and its products, to 9 per cent in groceries, 14 per cent in drugs, 24 per cent in the electrical goods trade, 25 per cent in hardware, and to but 3 per cent in the total for miscellaneous groups. Stocks remained on September 30 well below the year-ago level.

WHOLESALE TRADE IN SEPTEMBER 1938*

Commodity	Per Cent Change from Same Month Last Year			
	Net Sales	Stocks	Accounts Outstanding	Collections
Groceries.....	-13.2	-11.6	-8.1	-12.1
Hardware.....	-20.3	-22.3	-17.2	-17.7
Drugs.....	-14.6	-13.8	-2.5	-16.2
Electrical Goods.....	-28.1	+2.9	-35.0	-35.2
Tobacco and Its Products.....	-0.8	-5.9	-0.2	-5.9
Miscellaneous.....	-8.3	-10.8	-14.0	-17.4

*Data furnished by Bureau of Foreign and Domestic Commerce, United States Department of Commerce.

RETAIL TRADE

FOR the most part, favorable trends prevailed during September in retail trade groups reporting to this bank. Department store sales rose 34 per cent, or more than seasonally, and the margin of decline from last year was narrowed slightly further, although data covering the first half of October show a poorer comparison with the corresponding 1937 period. Stocks on September 30 recorded a slightly greater decrease from a year ago than a month previous, and for the second successive month turnover exceeded that of the same month in 1937. September sales of shoes at retail by dealers and department stores were almost double those of August and within 8 per cent of the dollar volume sold in September last year. By the end of September, stocks of shoes had been reduced to a level 12 per cent under that of a year ago. The increase of 26 per cent for September in the retail furniture trade was somewhat less than the gain in the 1928-37 average for the period, but the decline of 15 per cent from last September was no greater than that shown in the year-to-year comparison for August. Inventories of furniture and housefurnishings in hands of dealers and department stores continued through September to be 20 per cent lighter than last year.

DEPARTMENT STORE TRADE IN SEPTEMBER 1938

Locality	Per Cent Change September 1938 from September 1937		Per Cent Change First Nine Months 1938 from Same Period 1937	Ratio of September Collections to Accounts Outstanding End of August	
	Net Sales	Stocks End of Month		1938	1937
Chicago.....	-7.6	-15.8	-12.0	29.9	29.9
Detroit.....	-13.7	-25.7	-23.7	40.5	41.4
Fort Wayne.....	-15.5	-12.6
Indianapolis.....	-7.9	-21.0	-8.8	32.9	33.7
Milwaukee.....	-7.4	-13.0	-10.7	35.6	37.1
Peoria.....	-4.8	-9.7
Other Cities.....	-7.9	-10.4	-10.8	31.1	31.0
7th District.....	-9.2	-16.8	-14.1	33.6	34.2

*Include Fort Wayne and Peoria.

A survey of textile stocks in the hands of retailers indicates that they have diminished to a greater extent than inventories as a whole, considerable reduction having been effected since last spring except for seasonable merchandise in woolen lines. Stocks of textile goods may, therefore, be considered to be in good shape, although this inventory position was accomplished in some instances by rather severe

liquidation and there has been some holdover of merchandise in heavier lines of men's apparel. In general, commitments for new stock are higher than last spring but remain well below 1937.

MONTHLY BUSINESS INDEXES

	Data refer to Seventh district and are not adjusted for seasonal variation unless otherwise indicated. 1923-25 average = 100					
	Sept. 1938	Aug. 1938	July 1938	Sept. 1937	Aug. 1937	July 1937
Manufacturing Industries:						
Employment.....	73	67	67	101	101	104
Payrolls.....	68	61	59	105	109	108
Pig Iron Production:						
Illinois and Indiana.....	56	47	39	134	134	127
Automobile Production—(U. S.):						
Passenger Cars.....	22	20	37	41	106	123
Trucks.....	49	85	92	139	220	209
Casting Foundries Shipments:						
Steel—In Dollars.....	30	32	25	96	115	111
In Tons.....	24	25	19	86	107	107
Malleable—In Dollars.....	37	35	28	76	71	65
In Tons.....	45	41	33	92	85	80
Stoves and Furnaces:						
Shipments.....	209	154	115	301	223	172
Furniture Manufacturing:						
Orders in Dollars.....	67	68	65	78	82	95
Shipments in Dollars.....	74	61	43	89	85	68
Building Contracts Awarded:						
Residential.....	51	51	47	34	32	51
Total.....	78	73	59	57	65	77
Meat Packing—(U. S.):						
Production.....	84	82	79	75	67	65
Sales Tonnage.....	91	86	82	87	80	79
Sales in Dollars.....	92	85	88	100	98	98
Creamery Butter Output:						
Production.....	111	129	139	92	110	131
Sales.....	153	156	141	122	126	133
Department Store Net Sales:						
Chicago.....	84	70	57	91	75	66
Detroit.....	133	69	61	151	87	84
Indianapolis.....	113	84	70	124	86	75
Milwaukee.....	98	74	66	106	80	77
Other Cities.....	84	72	57	91	75	65
Seventh District—Unadjusted.....	96	72	59	105	78	71
Adjusted.....	93	87	83	102	96	98

Credit and Finance

MEMBER BANK RESERVES

RESERVES held at the Federal Reserve Bank by Seventh district member banks declined 17 million dollars in the five-week period ended October 19, as operations of the United States Treasury and the usual seasonal expansion in currency circulation more than counteracted the effect of an inflow of funds from other sections of the country. Most of the Treasury activity was in the first week of the period when distribution of new security issues coincident with the bulk of the quarterly income tax collections brought about a net excess of receipts over expenditures for the period as a whole.

INTEREST RATES

THE average rate of earnings during September on total loans and discounts of the large Chicago banks was the highest for any month in over two years, while the corresponding average for the major Detroit banks exceeded that for any month since last September. Interest rates charged on prime commercial loans by banks in the two largest cities of the district softened somewhat between September 15 and October 15, but a slight rise was noted in rates on time collateral loans of reporting Chicago banks.

A special survey recently completed of commercial, industrial, and agricultural loans, into which classification falls a large proportion of the total loans of reporting member banks, indicated that a small fraction of the total number of loans made at low rates of interest accounted for over one half of the total volume. The largest number of loans were made at rates of 5 per cent and over.

OPEN MARKET PAPER

TOTAL liability of Seventh district banks for acceptances outstanding continued to decline during September, with the volume at the end of the month less than 20 per cent of the 1928-37 average for the date. New financing during September, as is seasonally expected, dropped off even more sharply, although the total was slightly more favorable in relation to the ten-year average than was that for outstandings on September 30. In the first half of October, acceptances made by selected Chicago banks were in somewhat greater volume than during the corresponding September period.

Commercial paper sales in the Middle West recorded a contraseasonal increase in September over August, although the volume remained substantially below both last year and the 1928-37 average. Outstandings on September 30 also registered declines in the last two comparisons as well as being nominally lower than a month previous. Rates continued extremely easy. The rising trend of sales continued into the first half of October, as the supply of paper was more plentiful. Dealers have no difficulty in selling all the paper they can obtain.

SECURITIES MARKETS

BOND market developments in September and early October mainly reflected the unsettled conditions in Europe. Prices of all bonds, even the highest grades, remained depressed and the market practically stagnant until the international outlook was clarified at the end of September, and then a rapid recovery took place. Municipal prices rebounded even more sharply than corporates, according to information received from Chicago bond houses. New corporate issues for September were in the lowest volume since last winter, most financing being held up for the reasons mentioned above. Despite this severe contraction, the total continued above a year ago. Municipal emissions, while not restricted to the extent of the corporates, nevertheless recorded a rather low total for the month. Most issues attempted were high-grade refundings, and as such received a satisfactory reception. The few not strictly high-grade issues met with only fair success, indicating that market conditions are not as yet ripe for any large volume of second-grade financing. Institutional investors continue to be the largest buyers of bonds, with bank purchases still restricted and those by individuals practically negligible. Most bond houses, however, point to the comparatively large number of issues contemplated or already in registration, the prospect for continued heavy excess reserves of banks, and the clarification of the foreign situation for the visible future, at least, as indicators of sustained activity in the bond market for several months to come.

United States Treasury bonds followed about the same price pattern during the past weeks as did other "gilt-edge" securities. The weekly issues of Treasury bills in October sold at lower discounts than any similar issues since early summer, those dated October 19 selling to yield approximately .018 per cent.

The Chicago Journal of Commerce average of Chicago stocks showed that prices of these equities closely followed the familiar pattern established on the New York Stock Exchange during and after the European war scare. The average touched a three-months' low point late in September, but then rose steadily to a new recovery high of \$48.20, established on October 18, and stood close to this figure on October 22.

Selected Seventh District Banking Data

FEDERAL RESERVE BANK OF CHICAGO, SELECTED ITEMS OF CONDITION

(Amounts in millions)

	October 19 1938	Sept. 14 1938	Change from October 20 1937
Total bills and securities.....	\$277	\$-3	\$-4
Bills discounted.....	0	0	-1
Bills bought.....	0	0	0
U. S. Government securities.....	276	-3	-2
Total reserves.....	2,114	+36	+335
Member bank reserve deposits.....	1,204	-17	+290
All other deposits.....	99	+46	+55
Federal Reserve notes in circulation.....	966	+5	-10
Ratio of total reserves to deposit and Federal Reserve note liabilities combined.....	89.6%	+0.3*	+1.5*

*Number of Points.

CONDITION OF REPORTING MEMBER BANKS SEVENTH DISTRICT

(Amounts in millions)

	October 19 1938	Sept. 14 1938	Change from October 20 1937
ASSETS			
Loans and investments—total.....	\$2,941	\$+62	\$-81
Loans—total.....	819	-14	-215
Commercial, industrial, and agricultural loans.....	466	-6	-174
Open-market paper.....	35	+2	-20
Loans to brokers and dealers in securities.....	33	-1	-20
Other loans for purchasing or carrying securities.....	78	-1	-11
Real estate loans.....	93	0	+7
Loans to banks.....	4	+1	-1
Other loans.....	110	-9	+4
U. S. Government direct obligations.....	1,415	+71	+13
Obligations fully guaranteed by U. S. Government.....	238	+1	+50
Other securities.....	466	+4	+71
LIABILITIES			
Demand deposits—adjusted*.....	2,303	0	+84
Time deposits.....	879	+1	+11
Borrowings.....	0	0	-1

*The annual velocity of demand deposits (unadjusted) in the five weeks ended October 19 was 20.48 times, as compared with 17.57 times in the preceding four weeks and with 23.61 times in the corresponding period of 1937.

BANK DEBITS, SEVENTH DISTRICT

(Amounts in millions)

	September 1938	August 1938	Per Cent of Increase or Decrease from September 1937
Chicago.....	\$2,634	+4.6	-12.2
Des Moines.....	90	+1.9	-28.2
Detroit.....	690	+7.2	-22.6
Fort Wayne.....	31	+7.8	-9.1
Grand Rapids.....	47	-0.5	-14.0
Indianapolis.....	179	+2.9	-3.7
Milwaukee.....	230	+1.6	-13.2
Peoria.....	54	+5.7	-12.3
South Bend.....	40	+6.0	-20.0
32 smaller cities.....	431	+3.9	-13.6
Total 41 cities.....	\$4,416	+4.6	-14.5

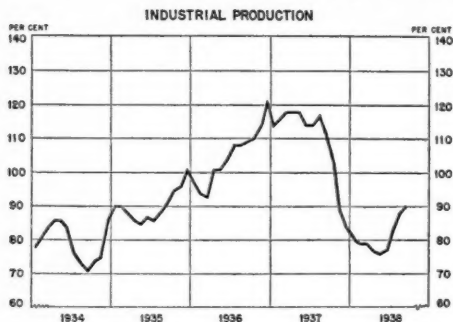
TRANSIT OPERATIONS OF THE FEDERAL RESERVE BANK OF CHICAGO AND DETROIT BRANCH

(Exclusive of Treasury checks and of non-transit items drawn on own bank)

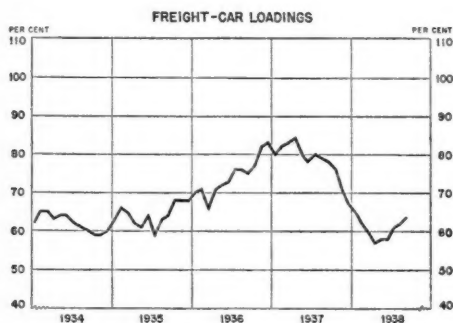
	September 1938	September 1937
Total country and city check clearings:		
Pieces.....	11,017,515	10,775,913
Amount.....	\$1,957,414,865	\$2,197,163,516
Daily average clearings:		
Total items cleared—		
Pieces.....	440,701	431,037
Amount.....	\$78,296,595	\$87,886,541
Items drawn on Chicago—		
Pieces.....	75,001	70,111
Amount.....	\$41,637,000	\$45,933,000
Items drawn on Detroit—		
Pieces.....	19,840	18,775
Amount.....	\$7,496,415	\$9,535,346

National Summary of Business Conditions

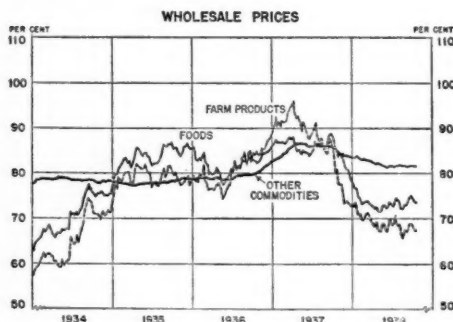
(By the Board of Governors of the Federal Reserve System)



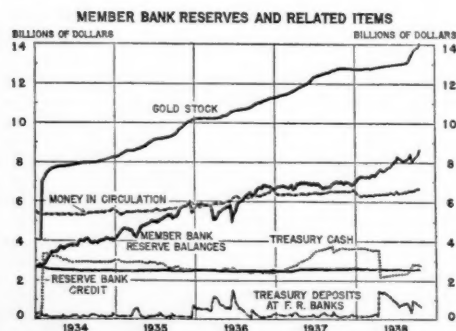
Index of physical volume of production, adjusted for seasonal variation, 1923-1925 average = 100. By months, January 1934 to September 1938.



Index of total loadings of revenue freight, adjusted for seasonal variation, 1923-1925 average = 100. By months, January 1934 to September 1938.



Indexes compiled by the United States Bureau of Labor Statistics, 1926 = 100. By weeks, 1934 to week ending October 15, 1938.



Wednesday figures, January 3, 1934, to October 19, 1938.

IN SEPTEMBER industrial production and employment continued to advance, and there was also an increase in the volume of retail trade. Building activity continued at the increased level reached in August, reflecting a large volume of awards for publicly-financed projects.

PRODUCTION

VOLUME of industrial production increased further in September and the Board's seasonally adjusted index advanced to 90 per cent of the 1923-1925 average as compared with 88 per cent in August. There was a substantial rise in pig iron production and output of steel ingots continued to increase, averaging 45 per cent of capacity. In the first three weeks of October activity at steel mills showed a further increase and was at a rate of about 50 per cent of capacity. Plate glass production continued to advance rapidly in September. Output of lumber and cement was maintained, although at this season activity in these industries usually declines. Automobile production in September remained at about the same low rate as in August; in October, however, output increased rapidly as most manufacturers began the assembly of new model cars. In the nondurable goods industries there were substantial increases in activity at meat-packing establishments, sugar refineries, and tire factories. Output of shoes declined somewhat. Textile production, which had been rising sharply since spring, showed little change in September, although an increase is usual. Activity increased further at silk mills, but at woolen mills there was a decline and at cotton mills output did not show the usual seasonal rise.

At mines, coal production increased considerably in September and there was also an increase in output of copper. Crude petroleum output declined as wells in Texas were shut down on both Saturdays and Sundays whereas in August only Sunday shutdowns had been in effect.

Value of construction contracts awarded, which had increased considerably in August, showed little change in September, according to figures of the F. W. Dodge Corporation. Awards for private residential building continued at the advanced level prevailing since early summer and contracts for public residential projects were also maintained following a rise in the previous month. Other public projects continued in substantial volume.

EMPLOYMENT

EMPLOYMENT and payrolls increased further between the middle of August and the middle of September, reflecting principally increases at manufacturing concerns. Employment rose sharply at automobile factories and increased moderately in other durable goods industries. At factories producing nondurable goods there was slightly more than the usual seasonal rise in the number employed.

DISTRIBUTION

DISTRIBUTION of commodities to consumers showed a more than seasonal rise in September. There were increases in sales at department and variety stores and mail order sales also increased. Department store sales for the first three weeks of October showed somewhat less than the usual seasonal rise.

Freight-car loadings continued to increase in September and the first half of October, reflecting chiefly a further rise in shipments of coal and miscellaneous freight.

COMMODITY PRICES

PRICES of a number of industrial raw materials, particularly hides and copper, advanced from the middle of September to the third week of October. Crude oil and gasoline prices, on the other hand, were reduced. Livestock and meat prices showed large seasonal declines in this period. In the first half of October there were sales of many finished steel products at prices below those announced for the fourth quarter, but in the third week of the month it was reported that prices had been restored to former levels.

BANK CREDIT

DURING the four weeks ended October 19 there were further substantial increases in the gold stock of this country. As a result largely of these gold acquisitions and of net expenditures by the Treasury from its deposits with the Reserve banks, excess reserves of member banks increased to a total of \$3,270,000,000 on October 19.

Demand deposits at reporting member banks in 101 leading cities were also increased by the inward gold movement and on October 19 amounted to \$15,750,000,000, the largest volume ever reported by these banks. Following substantial increases during September, reflecting purchases of new issues of United States Government obligations, total loans and investments at reporting banks showed little change during October.

MONEY RATES AND BOND YIELDS

THE average yield on long-term Treasury bonds declined from 2.48 per cent on September 27 to 2.28 on October 21. Yields on Treasury notes and Treasury bills also declined in the period.

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SEVENTH FEDERAL



RESERVE DISTRICT

